

SCENARIO 6

PROS

1. Is a flexible, transparent process providing comprehensive regulatory review of markets and utility procurement programs.
2. Preserves legacy expertise of utilities to plan and arrange for supply requirements of bundled service customers.
3. Provides a mechanism to address near- and long-term resource adequacy.
4. Provides flexibility for each utility to tailor a procurement program that addresses its specific requirements.
5. Provides a presumption in favor of competitive procurement while preserving the option of using other procurement methods when competition is not sufficiently robust.
6. Incorporates flexibility to adjust procurement strategies to changes in market conditions and RTO market structure.
7. Does not prejudice, mandate, or preclude any specific procurement program.
8. Provides a forum for market participants to have timely review and input.
9. Provides prudence review and approval of procurement strategies prior to a utility's commitment to specific resources.
10. Provides a mechanism to recover costs associated with approved supply procurements.
11. Provides a forum for state oversight of supply adequacy and reliability in the event of wholesale market inadequacies or RTO inaction.
12. Provides a single point of accountability and responsibility for supply planning and portfolio management functions, with regulatory oversight of this activity.
13. Will help inform ICC participation in RTO and FERC proceedings through periodic wholesale market assessments.

14. Various parties' interests are considered.
15. Considers a wide range of market variables at the time of the review process.
16. Allows for DSM programs and renewable portfolio standards.
17. May facilitate direct participation by specialized or single asset owners.

CONS

1. Involves specific and detailed legislative requirements.
2. Requires utility staff resources dedicated to ensuring compliance, developing filings, and participating in supporting proceedings.
3. Requires Commission staff resources dedicated to reviewing compliance with statutory requirements and managing multiple utility planning cycles.
4. Involves a judgment-based review that does not lend itself to easily quantified metrics for decision-making.
5. Will require litigation in proceedings where parties cannot establish agreement.
6. May require utilities to develop additional expertise in managing the risks associated with volatile wholesale power markets.
7. May not completely eliminate after-the-fact prudence reviews.
8. The scenario does not prescribe a particular procurement solution.
9. May not be possible to get legislation passed in time to support procurement for 2007 power supplies.
10. It may not be possible to efficiently transition between procurement strategies as market conditions change
11. Ever changing procurement strategies could result in higher prices due to the uncertainty it creates for suppliers.
12. Less transparent to the extent it allows for judgment based review of procurement through a non competitive process.
13. Because process is less transparent, interventions are more likely and the process could result in complex and lengthy proceedings.
14. To the extent that utilities would manage a portfolio of assets, this duplicates risk management/hedging expertise which is currently in the GENCO's.
15. Has not been implemented as the default service procurement process in any state that has restructured and allows retail choice.

16. Could result in higher prices if the settlement process provides for the inclusion of uneconomical resources in the portfolio. (Politics, rather than market economic forces, could drive procurement policy)
17. The portfolio cannot be changed easily and economically to respond to changes in wholesale and retail market conditions. For example, if retail competition becomes robust, the portfolio will still likely contain long term contracts entered into under a different market environment, creating stranded cost risk for remaining customers.
18. Does not demonstrate why a detailed regulatory process would result in a more efficient supply portfolio, lower prices or greater competition.
19. Leaves several key and potentially contentious issues to be resolved in a later regulatory process, including procurement methodology, rate design, and allocation of risks.
20. Decisions made through regulatory process may not include all information that would be provided by the market.
21. Unclear whether constraints of pre-approved procurement plan would leave utility sufficient flexibility to manage portfolio to respond to changing market conditions.
22. Though a wide variety of parties influence the final outcome, accountability and risk are borne disproportionately by rate payers and/or utility.
23. May involve significant counterparty credit risk, especially if procurement is through long-term supply contracts.
24. Review and procurement processes involve regulatory and administrative requirements which could be very costly and time consuming for several parties.